PREDICTING THE PROMOTION PAYOFF

BY JOSEPH HARRINGTON

Suppose you had spent $5,000 on a promotional campaign and attracted $750,000 in new loans as a result. Would you be eager to spread the news?

Don't be, unless the loans were designed to be loss leaders or returned at least 67 basis points to the bottom line—that's 67 basis points *after* figuring in administrative overhead costs. If you earned anything less than that, you lost money because your return was less than $5,000. For a credit union, that means one group of members (savers) subsidized another (borrowers).

The numbers in this example are not unusual, although the volume generated may be optimistic. They graphically illustrate that credit unions have little margin for error when they embark on a marketing promotion. It is imperative that credit unions find a way to measure the return on investment (ROI).

OUTSPENDING COMPETITORS

It may come as a surprise that credit unions spend a substantially higher percentage of their assets on marketing than banks and savings institutions. Moebs $ervices' *1991 Expense Control* survey found that responding credit unions spent an average of 10 basis points on marketing, compared to seven by banks and six by savings institutions.

Those figures are similar to previous studies. The contrast with banks and savings institutions in 1991 is even greater for credit unions with $25 million to $250 million in assets. They report spending 11 to 12 basis points on marketing.

How do we account for these expenditure levels? The answer lies in another *Expense Control* category: postage. Here again, credit unions reported they spent substantially more (10 basis points) in 1991 than banks (six basis points) and savings institutions (three basis points).

These numbers demonstrate how credit unions rely much more heavily on direct mail marketing than their competitors. The cost per "contact" of direct mail is much greater than that for broadcast and print advertising, but the chances of "hitting the mark" and making a sale are much greater. Heavy reliance on direct mail has been a natural strategy for credit unions, since their markets are defined by charter and their members often do not live in the same media markets.

Exclusive reliance on direct mail has become a thing of the past, however, as the common bond has been stretched and credit unions hurt by industrial downsizing have either converted to community charters or have merged with community credit unions. As credit unions are forced to use marketing techniques that are less specific in making contacts, they must find more precise ways to determine the return from each promotional campaign.

DETERMINING ROI

There are as many ways to calculate the return on a marketing investment as there are goals for individual promotions.

Doug Schneider, marketing director for $185 million Colorado State Employees Credit Union (CSECU), Denver, uses a formula developed by Maitland, Fla.-based Marketing Profiles Inc. for calculating ROI. "Whenever I put a promotion proposal together, I use this formula to find the breakeven point," Schneider says.

The formula requires the following information:

•**interest income**, determined by multiplying the dollars generated by the portfolio yield;

•**interest expense**, determined by multiplying the dollars generated by the cost of funds;

•**operating expense**, determined by multiplying the dollars generated by the overhead percentage (this information can usually be obtained from the chief financial officer or operations officer)

•**cost of the program**, which equals the marketing costs; and,

•**fee income**, which is the number of accounts times the fee per account.

The formula then entails the following calculations:

•Interest income - interest expense = net interest income

•Net interest income + fee income = total income

•Total income - overhead expense - cost of program = net income

•Net income divided by cost of program = ROI

"Based on my experience, I can usually predict whether the promotion will [provide a] return on its investment," says Schneider. "If it looks like we can't reach the numbers needed, I either restructure the promotion, or determine if the promotion is justifiable as a loss leader.

"Once the promotion is over, I plug in the actual numbers and then share the results with management. This process reinforces the fact that marketing is a good investment for the credit union and its members."❑

Joseph Harrington, *a former newspaper and magazine editor, is editor for Moebs $ervices, a Lake Bluff, Ill., research firm that produces publications and training programs on pricing, lending, expense control and compliance for financial institutions. He may be reached at 708/615-8000.*